Small and medium enterprises in Papua New Guinea: performance and growth prospects

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This article presents the results of a survey of the small and medium enterprise sector in Papua New Guinea. This sector is key to providing income opportunities for the country's large rural population. The interaction between local, inter-provincial and international markets is considered. Suggestions are provided for government action to overcome the constraints to the development of the sector.

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The performance of small and medium enterprises (SMEs) depends on the political, legal and economic environments in which they operate, including market structure, economic policies, administrative and physical infrastructure, property rights laws, and regional resource endowments. The absence of preconditions that favour small enterprise development can result in the slowdown of economic growth. Thus, it is commonly perceived that government should act to provide the necessary physical infrastructure and appropriate investment policies and regulatory framework to enhance economic growth.

The objectives of the study were to

- identify the nature and importance of SMEs in Papua New Guinea
- assess their performance and determine future growth prospects
- evaluate the government's investment policies and strategies with respect to private sector development over the past 20 years.

The main focus of the studywas on SMEs in the rural and urban informal sectors and their relationship with the financial sector. Rural and urban informal sector participants are micro-enterprises comprising an individual or household involved in non-formal activities such as street vending and handicraft work.

For the purposes of the study, SMEs were defined in close collaboration with the Ministry of Trade and Industry. Microenterprises were defined as those having one to four staff, annual sales of less than K30,000, and assets of less than K30,000; small enterprises were defined as those with five to 30 staff, annual sales of K30,000 to K500,000, and assets of K30,000 to K500,000; and medium enterprises are those with 31 to 100 staff, and annual sales of K500,000 to K2 million.

The study was carried out in three provinces—Milne Bay, Madang and Eastern Highlands. Interviews were carried out with 235 informal microenterprises (informal rural and urban sector participants), including individuals, and 75 formal sector SMEs. As well, interviews were conducted with three commercial banks. The Rural Development Bank, the Ministry of Trade and Industry, the Small Business Development Corporation, the Start Your Business Improve Your Business Project, the Fresh Produce Development Company, the Smallholder Support Service Pilot Project, the PNG Skills Development Project, and the Nucleus–Agro Enterprise Project.

The economic significance of SMEs in developing economies

In any economy, the private sector consists of micro, small, medium and large enterprises, but it is usually SMEs that constitute the major part of the private sector. SMEs therefore contribute significantly in terms of employment, exports, taxes, foreign direct investment, and ultimately GDP. The recent APEC Ministerial meeting reported that the over 40 million SMEs throughout the APEC economies account for over 90 per cent of all enterprises. They also employ from 32 to 84 per cent of the economies' work-forces, contribute from 30 to 60 per cent of gross domestic product, and account for 35 per cent of exports in the region (APEC 2002).

International institutions and agencies including the World Bank, Asian Development Bank and United Nations Development Programme are taking increasing interest in assisting the development of the private sector primarily through SMEs, with the explicit objective of reducing poverty in developing countries. According to James D. Wolfensohn, President of the World Bank Group,

> …the private sector clearly is a key engine of growth, and one of the best ways to build is from the bottom up—focusing on small-scale entrepreneurs. This means listening to their concerns, identifying their biggest obstacles, and helping them compete in an increasing global economy. Given the right tools, they can create many of the jobs, and much of the wealth, that their societies so badly require. Small entrepreneurs must be part of the development equation. So often SMEs are the private sector, and the sustainable growth and employment generation that are the keys to reducing poverty cannot be achieved without them (World Bank 2001:2).

SMEs have great potential to create jobs, contribute to sustainable economic development, allocate resources more effectively, expand exports, achieve a more equal distribution of incomes, and assist in rural and regional development (Harvie and Lee 2000). The bulk of the rural population is involved in the SME sector and therefore policies that enhance SME development will create opportunities for the rural population to gain a better livelihood.

Performance of informal sector SMEs in Papua New Guinea

There is a great deal of interaction between the rural and urban informal sectors with respect to labour mobility and trade. Labour

Table 1 **Migration of informal sector participants** (number of respondents)

	Alotau	Madang	Goroka	Per cent of total respondents
Same province	41	25	33	42
Other province	19	65	52	58
Total	60	90	85	100

Source: Author survey.

movement between regions or provinces in Papua New Guinea is common (Table 1). In Alotau (Milne Bay Province), a large number of the informal sector participants interviewed (41) came from Alotau itself; however, in Madang and Goroka (Eastern Highlands Province), on the other hand, large numbers of informal sector participants (65 and 52, respectively) came from different provinces. On average, 58 per cent of those participating in the informal sector survey were migrants from other provinces.

High labour mobility explains trade between the Highlands and Momase regions, particularly in betel nut and fresh food. The trade in these goods is not exclusive to the regions or to the informal sector, but facilitates trade in goods and services for formal sector participants in the province; for example, through the selling of betel nuts to formal wage earners. Madang also has a niche market as a tourist destination; thus it attracts people from the other two regions, who bring their handcrafts or artefacts to Madang to sell to tourists.

The extent of urban informal sector activity appears to depend on the size of the town, and hence its demand; the existence in the town of urban squatter settlements; and the general attraction or 'pull' factors of the town. Most squatter settlements in urban centres of Papua New Guinea are widely assumed to be the home of informal sector participants, and criminals, but in fact large numbers of formal sector participants from both the public and private sectors live in squatter settlements. Hence, there is dual household participation in the economy. A household may carry out two forms of activity: formal and informal. For example, the wife or husband might engage in formal activity while the spouse and/or their children participate in informal activities.

The commodities commonly sold in informal markets include coffee, coconuts, livestock, cocoa, vanilla, fresh fish and other marine food, betel nuts, cigarettes and tobacco, handicrafts, carvings and artefacts more generally, manufactured goods, cooked food, fresh vegetables and fibre foods, woven clothes and string bags, and second-hand clothing. Services provided include shoe mending and polishing, mechanical repairs, furniture making and repairs, street cleaning, and hired labour for manual work.

There was a strong indication from the survey that most of the informal SMEs used their savings to conduct their business. On average, 61 per cent of those in the informal market used savings from wage income or sales. Contributions from families and friends were also important (see Table 2).

The level of education of informal sector participants is very low. The majority (about 43 per cent) had a primary education background. The next most important form of education was non-formal education.

Table 2 **Sources of funds for start-up capital** (number of respondents)

	Alotau	Madang	Goroka	Average (per cent)
Savings	8	63	72	61
Contributions	16	17	13	20
Informal credit	-	-	-	..
Other	36	10	-	19
Total	60	90	85	100

Note: 'Savings' come from wage income and previous sales. 'Contributions' come from resource pooling among family members, relatives and friends. 'Informal credit' refers to schemes or facilities organised in communities. 'Other' includes gifts, compensation, royalties and bride price.
Source: Author survey.

Only 2 per cent had tertiary education qualifications. The high level of primary education indicates the high level of dropouts from primary schools. With this level of education, it is extremely difficult to find jobs in the formal sector, or even to start a formal business.

There is no indication from the survey that an urban informal sector activity easily evolves into formal sector activity. The constraints appear to be legal rigidities, lack of capital, poor technology development and application, inadequate and insufficient transport and communication infrastructure, and high transaction costs associated with business registration and establishment. From the rural sector, however, there are some success stories (Box 1).

Box 1
Congo Coffee

Congo Coffee is a successful coffee exporting company. It had its origins in a roadside buying business with a start up capital of K2,000. Over the past 11 years it has accumulated K7 million worth of assets. Initially, owner Jerry Kapka found it extremely difficult to access international markets, but as the result of sheer determination he eventually secured several buyers in Europe. A trip to Europe cost Kapka K30,000. Prior to this, he sought assistance from the Coffee Industry Corporation and other coffee exporting companies but he was unsuccessful in obtaining the business information he required. This prompted him to take the trip overseas to market his company himself. Having convinced several buyers in the United Kingdom of the viability of his business, Kapka kept his promise to them to supply an agreed number of bags of processed coffee beans per shipment. He has since been consistent in supplying the coffee beans to his buyers and has even improved over time. Having proven his determination and business acumen, Kapka has never turned back, and appears to be well on his way to fulfilling his dream of becoming a millionaire.

Table 3 **Summary of SMEs in Alotau, Madang and Goroka by industry, nationality, employment and investment up to June 2003**

Industry	Nationality NC/JV	C	F	Total employment	Total investment (million kina)	Total SMEs
Wholesaling and retailing	5	16	15	2,941	22.76	36
Building/construction/engineering	2	3	-	100	7.11	5
Stevedoring/transport/aviation	1	1	-	339	3.25	2
Hospitality/catering	-	4	1	39	0.48	5
Manufacturing/processing	-	6	2	398	5.63	8
Logging	1	2	-	362	4.83	3
Fishing/marine	-	1	-	30	0.10	1
Agriculture	-	-	-	-	-	-
Real estate/property	1	1	-	36	2.45	2
Financial intermediaries	-	-	-	-	-	-
Services		4	3	454	5.59	7
Total	10	38	21	4,699	52.19	75[a]

[a] Six firms did not identify their nationality or origin of business and were therefore not included in the first column (nationality); however, their figures for employment and investment were included.
Note: NC/JV = national companies plus joint venture firms; C = citizen firms; F = foreign firms
Source: Author survey.

SMEs in the formal sector in Papua New Guinea

Details of the formal-sector SMEs surveyed, in terms of industry, nationality, employment, and total assets, are shown in Table 3.

Ten national companies and joint ventures were included in the survey. A national company is one that requires the national or citizen to have a 59 per cent share or equity in the company and 41 per cent foreign ownership. A joint venture is a combination of foreign and national firms or institutions. Usually, foreign firms have a share or equity greater than 50 per cent.

There were 38 citizen firms and 21 foreign firms. ‘Citizen’ refers to both indigenous persons and non-indigenous persons who have become citizens, for example, immigrants and naturalised citizens. Non-indigenous citizens owned about 50 per cent of the firms surveyed. The total number of employees in the surveyed firms was 4,699, and total assets amounted to 52.19 million kina. Types of firm ownership are shown in Table 4. The most common form of ownership is limited proprietary, while almost half of the firms are parent companies.

Most of the firms can be characterised as light or footloose, with a large proportion operating in services and retail. Manufacturing firms in the SME context are small-scale operations that are labour-intensive, have low output capacity, and only serve their province of origin. For instance, a manufacturing firm in Madang would not have the capacity to supply the market in Goroka or elsewhere in Papua New Guinea. Most export businesses and naturalised citizens’ firms have access to information on international markets, and have foreign partners or contacts. However, few indigenous firms have comparable access to information.

Table 4 **Types of firm ownerships** (number of respondents)

	Alotau	Madang	Goroka	Percentage of total
Sole Pty	6	6	17	38.7
Pty Ltd	8	21	9	50.7
Others	1	3	4	10.6
Parent company	9	14	11	45.0
Subsidiary	1	12	6	25.0
Others	5	4	13	29.0
Total respondents	15	30	30	

Note: 'Others' include franchises, joint ventures, and partnerships.
Source: Author survey.

As regards the migration of firms, the following characteristics were found to apply

- the largest proportion of firms (35 per cent) were formed in the province in which they operated
- foreign firms accounted for 28 per cent of all firms
- firms from other provinces accounted for 24 per cent of all firms.

Firms from within the province said that they had been restricted from movement to another province by factors such as location, nature and origin of the family business, cost, external issues such as law and order, and land use problems. Local firms said that they had advantages in being more familiar with their environment and had good access to services because of their long-standing relationships with various organisations in the province.

Eighty per cent of the original business owners or citizen firms worked in the private or government sector prior to establishing their own businesses. Evidence of this was shown by the fact that the majority of the SMEs surveyed raised their start-up capital through private savings from previous formal employment.

A total of 21 of the formal sector SMEs surveyed were established in the period between 1960 and 1980; 12 were established from 1981–91; while 35 were formed in the 1992 to 2002 period (Table 5). Hence, SME formation in the past decade has taken place

Table 5 **Types of firm established from 1960 to June 2003**

	1960–80	1981–91	1992–2002	2003	Total number of firms
National	4	3	3	..	10
Foreign	7	5	9	..	21
Citizen	9	4	23	2	38
Total	21	12	35	2	69

Note: Six firms did not indicate years of establishment.
Source: Author survey.

at three times the rate in the previous three decades. A higher proportion of citizen firms was established in these 40 years than foreign and national or joint venture firms.

SMEs in the formal sector make up a significant proportion of total private sector activity, in terms of employment, investment, exports, sales, and taxes (Table 6). Total sales in 2002 by the firms surveyed amounted to K114.6 million, assets were estimated to be K52.2 million, and the government is estimated to have collected K19.5 million in corporate income tax. (Total figures for sales, assets, and tax would have been larger if another 19 firms had included their sales and investment figures in the questionnaire responses.) Foreign firms' share of total sales is 27.3 per cent (Table 7).

Table 7 provides information on assets and employment by foreign firms, citizen firms, and national and joint venture firms. The largest ownership of assets is by citizen firms, mostly resident in Madang, followed by national and joint venture firms. However, foreign firms employ 50 per cent of the total employment reported by the surveyed firms.

Table 6 **Formal sector SMEs—sales, expenditure, and tax estimates for 2002** (million kina)

	Alotau	Madang	Goroka	Total (million kina)
Sales	9.13	66.62	38.87	114.62
Expenditure	4.02	28.62	17.10	49.74
Taxes	1.53	11.40	6.53	19.46
Assets	2.55	35.66	13.99	52.19

Note: Nineteen firms did not indicate their sales and expenditure figures—seven firms from Madang, two from Alotau, and ten from Goroka. The estimate of taxes paid was calculated by using the rate of 30 per cent as imposed in the 2003 National Budget.
Source: Author survey.

Table 7 **Assets and employment as at 30 June 2003, by origin of business** (million kina)

Provinces	Alotau	Madang	Goroka	Total (million kina)
Assets				
National	0.53	1.80	8.04	10.38
Foreign	-	3.88	4.53	8.41
Citizen	2.02	29.96	1.42	33.39
Total	2.55	35.66	13.99	52.19
Employment	344	3,007	1,348	4,699
Foreign-owned firms				
Share of employment (per cent)			49.6	
Share of investment (per cent)			16.6	
Foreign firms' share of total sales (per cent)		27.3		

Note: Thirteen firms did not provide estimates of assets, two (one foreign and one national firm) from Alotau, five (three foreign and two citizen firms) from Madang, and six (four foreign and two citizen firms) from Goroka. Five firms did not provide employment data.
Source: Author survey.

Foreign firms hold about 17 per cent of total assets and account for 27 per cent of total sales. These figures on assets and sales exclude the contribution from national and joint venture firms. If these firms were included, the sales, assets and employment of foreign firms would add to more than 50 per cent of the totals of these variables for all reporting firms. This means that foreign direct investment in formal SMEs is quite significant. Of the three provinces, Goroka has the highest level of assets held by foreign firms and by far the largest share of assets held by national companies. If we include the foreign investment component of national companies, Goroka would have by far the largest amount of FDI of the three provinces.

The large share of FDI in Goroka is due to its industrial activities, its geographic location at the centre of the highlands provinces, and the increase in economic activity in the Highlands in recent years. The other two provinces are disadvantaged with respect to attracting foreign investment because of their lack of industrial activity and geographic isolation from industrial centres, especially Lae and Port Moresby. The size of a province's towns also matters, since big towns have large consumer demand.

Linkages (backward and forward) and competition

There was great disparity in operations and the absence of any form of integration (in terms of forward and backward linkages) between large enterprises and SMEs in most of the industries observed. There is the possibility of establishing backward linkages in the agricultural sector, but it is limited to commercial plantations and a few organised producer associations. For example, in Alotau the Fishermen's Association encourages local fishermen to harvest fish and sell them to the shops and restaurant operators in the province. But to increase the scale of its operations, the organisation will have to access markets outside the province, including overseas markets. A small and fragmented market is not conducive to large-scale production.

Large firms have been more competitive than SMEs, especially in the wholesale and retail industries. There are a few large firms in the retail and wholesale industry in each province that have large market share because of their strategic approach in capturing the entire market. For example, a large firm sets up a large wholesale warehouse and two or three retail shops in strategic locations within the same town. With large scale of operation and low cost per unit sold, large firms are able to sustain their profit levels while forcing rival small enterprises out of business. These actions have been prevalent in the three provinces.

Performance of the financial sector: commercial banks and the Rural Development Bank

Structural changes to the financial institutions in the past ten years have had adverse implications for existing SMEs and potential borrowers. Box 2 gives a general overview of the structural changes in commercial banks and the Rural Development Bank (formerly the Agriculture Bank), and hence the effects on savings, credit and financial services throughout the country. Closure of bank agencies and branches throughout the country resulted from law and order problems and severe liquidity problems faced by the Rural Development Bank. The liquidity problems faced by the Bank were due to gross mismanagement of funds, especially undisciplined loan management.

The low level of savings indicates that a large number of people from the informal sector (about 85 per cent of the total population) do not have a savings account with a commercial bank or other financial institution. The less than 30 per cent of the population who are depositors represents only the formal sector employees and businesses that have bank accounts with the commercial banks and other financial institutions. Analogously, the one per cent of the population who are borrowers are private sector businesses and a few individuals.

More formal SMEs borrowed from commercial banks than from other non-bank financial institutions. The main reason for this was that the other non-bank financial institutions have had various administrative and liquidity problems over the past 15 years. Various savings and loans societies and credit schemes have been established over the past 20 years, but most of them have failed (Kavanamur 2000).

Thirty-six per cent of the firms involved in the survey derived their start-up capital from personal savings and only 20 per cent of the formal SMEs borrowed from the banks against their savings (Table 8). These were followed in importance by partnership and equity shareholdings. Some of the existing firms have also accessed funds from the Rural Development Bank, and through various government guarantee schemes. But most of these schemes have been abolished over the last 15 years.

Information collected in the survey suggests that firms have been able to borrow funds from commercial banks after being in existence for some time. This indicates that commercial banks are cautious about providing loans to start-up businesses. The main reasons for the banks' cautious approach to lending are the asymmetric information about the borrower and the high risk and costs of conducting business in Papua New Guinea.

A high proportion of firms, 48 per cent, said that they have borrowed from the commercial banks to re-finance loans or for further investments (Table 9). These 48 per cent who had taken out bank loans includes the 20 per cent who borrowed to begin their business as well as those who started their businesses before they sought loans.

In contrast, one-third of the firms (Table 10) were indifferent about future borrowings. The reason given was that they perceived the current investment environment, including the prevailing high interest rates, to be unattractive for further investment.

Box 2
The banking situation

- The number of branches and agencies of commercial banks declined by 55 per cent over the ten years ending in 1995.
- The number of branches and agencies operated by the Rural Development Bank declined by 37 per cent during the same period.
- Less than 30 per cent of Papua New Guinea's population hold deposits with commercial banks.
- Less than 1 per cent of Papua New Guinea's population are borrowers from commercial banks.
- The privatisation of PNGBC has worsened the situation.

Source: Village Finance Limited 2001.

Table 8 **Credit facilities—start-up capital** (number of respondents)

	Alotau	Madang	Goroka	Percentage of respondents
Personal savings	6	5	16	36.0
Savings + bank	2	9	4	20.0
Equity	2	6	2	13.3
Other	5	10	8	30.7
Total	15	30	30	100.0

Note: 'Other' includes contributions from relatives, government guarantees and the Rural Development Bank.
Source: Author survey.

The banks' approach to lending is based on profitability assessments including collateral and other performance measures such as the current asset ratio.[1] The commercial bank's lending criteria for new borrowers is based on the firm's collateral and consideration of the overall risk assessment. Collateral includes both cash and non-cash assets. Banks require substantial collateral (mostly liquid assets) to narrow the margin of risk. Given the stringent requirements for loans, prospective SMEs would generally not have sufficient collateral to borrow. The banks favour firms with existing loans because these firms would already have some collateral lodged against a loan.

The Bank of South Pacific requires 20 per cent collateral on all new projects, while Westpac Bank's requirement is 25 per cent. The ANZ Bank's requirement for collateral as a proportion of investment value is between 10 and 70 per cent. Its consideration is based on a (case-by-case) assessment of the viability of the proposed projects.

The Rural Development Bank has taken a new approach in managing its loan portfolios, increasing interest rates to 15 per cent (using a simple interest formula) but without requiring collateral. Despite the new approach, the Bank still faces high risks on loan portfolios in the case of default because no collateral is required. Affordable interest rates and no collateral-based loans

Table 9 **Share of firms that borrowed from banks or other financial institutions for refinancing** (number of respondents)

	Alotau	Madang	Goroka	Total (per cent)
Yes	10	16	10	48.0
No	5	9	12	34.7
No indication	-	5	8	17.3
Total number of respondents	15	30	30	100.0

Note: C = citizen firms, F = Foreign firms, JV = Joint Venture. Yes = indicated firms that have borrowed money from financial institutions. No = those firms that did not borrow money during their course of business operation.
Source: Author survey.

Table 10 **Firms' willingness to borrow funds in future from banks** (number of respondents)

	Alotau	Madang	Goroka	Per cent of total
Yes	5	14	12	41.33
No	5	7	7	25.33
No indication	5	9	11	33.33
Total number of respondents	15	30	30	100.00

Notes: See Table 9.
Source: Author survey.

are based on loans that have tight limits. The limit for borrowing is only K10,000. Under the new approach, the Bank may also give loans to other commercial investments (Rural Development Bank 2000).

Banks are reluctant to take traditional land as collateral because proper land titles are not available due to ambiguities in property right arrangements and because it is not attractive to investors to conduct business on rural customary land that is geographically isolated from the main towns or industrial centres. The banks are more interested in alienated land or land with a prime location, such as commercial or industrial centres, to minimise potential investment risks.

The role of government in investment

Various broad investment policies and strategies have been formulated since 1980 with the subsequent establishment of supporting government institutions and regulatory regimes. In the past ten years there have been remarkable changes on the policy front and within government institutions. Papua New Guinea experienced its first reform in 1992 through its structural adjustment program sponsored jointly by the World Bank and International Monetary Fund.

Investment policies and strategies introduced by successive governments over the past twenty years include the White Paper on Industrial Development (1983), Medium Term Industrial and Trade Development Action Plan (1991), Beyond the Mineral Boom (1993), National Investment Policy Vol. 1 (1998), National Investment Policy Vol.2 (1999), Small and Medium Enterprise Policy (1998), National Competition Policy (2001), Industrial Development Plan (2001), and Free Trade Zone (2000). Generally, reforms have lacked commitment and support in terms of financing, coordination and implementation. The main reason for policy failure has tended to be lack of political commitment (which includes funding) and the government's replacement of policies implemented by predecessor governments.

The policy weakness and implementation failure was highlighted by the Department of Trade and Industry (the bodyresponsible for policy formulation and implementation of commercial and industrial policies and strategies) in the Economic Sector Development Working Committee presentation in April 2002.

> The main conclusion that can be drawn from the past policies is that there was lack of well perceived policy

documents. If one takes into account all other efforts at producing policy documents and other papers on issues of employment and private sector development the opposite was the case. Generally speaking, although the successive policy documents have differed in emphasis, they all agree on the assets and liabilities of the PNG economy. The main problem was in the implementation and making an impact in solving the perceived problems and constraints. Moreover, the Ministry of Trade and Industry has no control over those policies and yet still it lacks appropriate policies and packages that is required for implementation. One of the failures of the implementation was the lack of control over the required policies and scattered nature of decision-making with regard to industrial policy. It may be true that the policy documents contained a vision, but this vision was not part and parcel of the main decision-making levels of government. Or if and where not it was, the government itself had no control over its implementation (Kadiko 2002).

Small and medium enterprise policy

The main objectives of the SME policy approved by the PNG government in 1998 were

- to develop, transfer and adapt technology suitable for SMEs
- to strengthen and encourage linkages between SMEs and support institutions
- to develop infrastructure and human resources
- to promote fair competition and long-term development of SMEs
- to create and instil business culture without gender bias.

The policy is broad in the sense that it highlights important areas for SME growth and development.

The SME policy was framed around three main actions: discussion of government policies and regulations that affect SMEs; identification of the major impediments to SME formation and development; and provision of a set of remedial actions or action plans to improve and develop the SME sector. The major impediments identified in the SME policy includes

- lack of human resource development or business skills
- limited access to markets and networking
- limited access to credit
- lack of technological development
- limited access to business information
- underdeveloped and deteriorating infrastructure.

Government programs for SME development

There is a debate about how government should stimulate investment growth when the renewable and non-renewable resource sectors are rapidly declining in terms of their contribution to the economy. With this in mind, the government (and previous governments) has initiated a number of programs and projects aimed at providing opportunities for formal and informal sector participants, particularly SMEs. These initiatives address most of the impediments identified in the SME policy. But most of these initiatives were funded through off-shore multilateral borrowings, mainly from the Asian Development Bank. Some of the projects are directly funded by donor agencies and non-government organisations. Also, there are projects funded by donor agencies to assist the informal sector participants to participate in economic activities. For example, the Ginagoada Business Development Foundation Inc., which was initiated by Lady Carol Kidu, Member of Parliament representing Moresby South East, was funded by the Australian Agency for International Development.

The projects undertaken by the government include the PNG Employment-Oriented Skills Development Project, Micro-finance project, Start/Improve Your Business, Nucleus Agro-Enterprise Project, Fresh Food Development Corporation, and Smallholder Support Service Pilot Project. However, these projects are in their infancy and thus benefits (impacts) will be realised in 10 to 20 years. Most of these projects will be tested first (as models) and there is no guarantee that even successful models can be replicated in other parts of the country.

Conclusion

Microenterprises and SMEs have huge potential for growth but are faced with impediments such as: lack of access to affordable finance, legal restrictions, the lack of an educated labour force, difficulties in using traditional land for commercial activities, and the high costs of business operations. These constraints will remain major development issues for Papua New Guinea. Lack of government support in providing the necessary infrastructure, appropriate investment policies/strategies and regulatory frameworks, and lack of commitment to implementing changes—including sabotaging policy initiatives by predecessor governments—also appears to be counterproductive. Hence, growth prospects for SMEs and, more generally, the private sector remain uncertain until the structural impediments and problems in the government's approach to investment are addressed.

Note

1 The current asset ratio is an indicator of an entity's ability to meet short-term liabilities by realising short-term assets. This assessment may be necessary to evaluate the firm's financial worth in the case of liquidation, merger or takeover.

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